

CREDIT OPINION

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Brookline (Town of) MA

Update to credit analysis

Summary

Brookline, MA (Aaa stable) benefits from a sizeable and affluent tax base which benefits from strong property values and close proximity to Boston (Aaa stable), New England's largest employment center. The town's stable financial position is bolstered by formally adopted fiscal policies and strong management. Debt outstanding will increase over the next several years as the town takes on more school projects. Pension liabilities remain manageable.

Credit strengths

- » Sizeable tax base with very strong resident wealth and incomes
- » Comprehensive fiscal policies and planning
- » Long trend of stable financial operations
- » Taxpayer support for general levy limit overrides and debt exclusions

Credit challenges

- » Growing capital needs driven by upward trending school enrollment
- » Limited operating flexibility under Proposition 2½

Rating outlook

The stable outlook reflects the favorably located tax base that will continue to grow. The outlook also incorporates the town's financial position that will remain stable going forward due to careful fiscal management and the expectation that voters will continue to approve proposition 2½ exclusions for growing capital needs.

Factors that could lead to a downgrade

- » Trend of operating deficits that result in a material decline in reserves
- » Material tax base contraction
- » Substantial increase in debt absent corresponding tax base growth
- » Failure to address long-term pension and OPEB liabilities as planned

Key indicators

Exhibit 1

Brookline (Town of) MA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$16,264,277	\$17,051,417	\$17,051,417	\$20,944,753	\$20,944,753
Population	59,016	59,132	59,180	59,157	59,246
Full Value Per Capita	\$275,591	\$288,362	\$288,128	\$354,054	\$353,522
Median Family Income (% of US Median)	221.4%	207.7%	209.7%	209.7%	209.7%
Finances					
Operating Revenue (\$000)	\$231,681	\$232,769	\$250,639	\$276,878	\$292,697
Fund Balance (\$000)	\$26,120	\$24,550	\$28,845	\$33,692	\$35,715
Cash Balance (\$000)	\$34,432	\$33,137	\$40,526	\$41,462	\$46,470
Fund Balance as a % of Revenues	11.3%	10.5%	11.5%	12.2%	12.2%
Cash Balance as a % of Revenues	14.9%	14.2%	16.2%	15.0%	15.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$64,493	\$61,105	\$71,248	\$99,188	\$151,645
3-Year Average of Moody's ANPL (\$000)	\$324,714	\$373,012	\$383,535	\$409,408	\$445,682
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.5%	0.7%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.4x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.0%	2.2%	2.2%	2.0%	2.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.6x	1.5x	1.5x	1.5x

Data as of 6/30 fiscal year end

Note: 2019 full valuation (000s): \$24,547,879

Source: Moody's Investors Service and issuer's audited financial statements

Profile

Brookline, with an estimated population of 59,246, is a sizeable residential community neighboring the City of Boston.

Detailed credit considerations

Economy and Tax Base: Large and affluent tax base adjacent to Boston

Brookline's large \$24.5 billion tax base will remain stable with moderate growth over the medium term, given its favorable location, high value housing stock, and strong resident wealth and income profile. Located adjacent to the city of Boston, the town benefits from its proximity to New England's largest economic center, which is directly accessible by public transportation. The town's assessed value has grown for ten consecutive years, with approximately 45% growth since 2015. Additionally, the equalized value increased a significant 17.2% over the 2 years from 2017 to 2019, which is among the strongest growth rates in the commonwealth. While the tax base is 90% residential, future new growth will continue to come from new commercial development, including hotels and commercial projects in the Brookline Village area. According to the fiscal 2020 financial plan, the town conservatively estimates new growth revenues of \$3.1 million.

Median family incomes represent 155% of state and 206% of US levels, respectively, while median home values are more than 400% of the national median. These expensive residential properties help drive the very strong full value per capita of \$414,338. The town's unemployment rate of 1.5% (December 2018) remains well below the Massachusetts rate of 2.7% and US rate of 3.7%.

Financial Operations and Reserves: Stability will continue given formal policies and conservative long range planning

Brookline's financial position will remain healthy over the near term given the town's history of balanced operations, maintenance of adequate reserves and commitment to addressing capital needs and long-term liabilities. The town's balanced operations result from

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comprehensive formally adopted financial policies as well as conservative long range budget projections for operational and capital needs.

The fiscal 2018 audited financials reflect a \$2.0 million surplus driven by vacancies in both the police and fire departments. The available General Fund balance increased to \$35.7 million representing 12.2% of revenues. The town has historically maintained General Fund reserves of 10-11% of revenues, which is in line with its reserve policies. Financial reserves will likely remain in this range over the near term. While narrow compared to the national median for the rating category, these balances are adequate given the town's strong fiscal management and reliance on property taxes that consistently represent over 70% of revenues. Collection rates remain strong with 99% collected in the year in which they are due.

The fiscal 2019 budget increased 4.7% year-over-year due to education and employee benefits, the town's two largest expenses. The budget was balanced with a 6% tax levy increase as well as the first portion of an override that will extend through fiscal 2021. Management anticipates another surplus at the end of the year given lower than budgeted snow removal expenses through early March.

The 2020 budget reflects growth of 6.7% driven by capital projects spending, debt service, salaries and benefits, and education driven by rising enrollment and special education costs. The budget was balanced with a 6% tax levy increase.

The town's capital improvement plan, which covers fiscal 2020-2025, contemplates a variety of infrastructure projects with school projects dominating the list. Increasing enrollment will drive capital needs and ultimately require debt financing; however, management expects voters to exclude most, if not all, of that debt from Proposition 2½, so the added debt service will not crowd out other expenditure needs. Maintenance of the town's very stable financial position over the long term will likely require ongoing taxpayer support of general overrides and debt exclusions.

LIQUIDITY

Cash and investments at the end of fiscal 2018 totaled \$46.5 million representing 15.9% of revenues.

Debt and Pensions: Debt burden will increase; large but manageable pension and OPEB liabilities

Net direct debt is equal to 0.7% of equalized value, which remains below the state and US averages. The debt burden will gradually rise over the next five to ten years given the capital improvement plan driven by school projects. Importantly, the expected debt burden will remain manageable based on current projections given the town's debt policy which incorporates funding sources and funding levels from debt, pay-go, and reserves. The proposed fiscal 2020-2025 CIP totals \$267.6 million, an average of approximately \$44.6 million per year. The plan includes the debt exclusions for the Coolidge Corner School (previously called the Devotion School) and Brookline High School (\$189 million). Additionally, the town will need to issue a significant amount of debt to fund reconstruction at the Baldwin (\$87.6 million), Driscoll (\$108.8 million), and Pierce schools at costs to be determined.

DEBT STRUCTURE

The entire debt portfolio is fixed rate. Fiscal 2018 debt service totaled \$12.6 million representing 4.3% of expenditures.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The town maintains and participates in the Brookline Contributory Retirement System, a single-employer defined benefit retirement plan. The town's annual contribution in fiscal 2018 was \$20.4 million or 7% of General Fund expenditures. As of the close of fiscal 2018 the town reported an unfunded pension liability of \$218.3 million which it plans to fully fund by 2030, well in advance of the state mandate of 2040. The fiscal 2018 three-year average Moody's adjusted net pension liability, based on Moody's methodology for adjusting reported pension data, is \$446 million representing a moderate 1.5 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town has begun to more aggressively fund its other post-employment benefits (OPEB) obligation and is working to fully fund its OPEB liability by fiscal 2054. In fiscal 2018, Brookline contributed \$17.1 million toward its OPEB liability.

Fixed costs, including annual debt service, pensions, and OPEB costs, accounted for 17.3% of fiscal 2018 operating expenditures.

Management and Governance

Brookline adheres to conservative and comprehensive fiscal policies including multi-year forecasting for operations and capital needs as well as plans to address long-term liabilities.

Massachusetts cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities' major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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